



The Scottish Parliament
Pàrlamaid na h-Alba

Finance Committee

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Dear Convener

Finance Committee – Budget guidance for committees

Guidance

At its meeting on 29 June, the Committee considered its approach to its scrutiny of the Draft Budget 2017-18 agreed to write to each committee with a copy of the attached guidance. The guidance covers a number of issues—

- timetable;
- outcomes based scrutiny;
- prioritisation;
- value for money;
- preventative spending; and
- climate change and the carbon assessment

In particular, the Committee would like to draw your attention to two issues, firstly, outcomes based budget scrutiny and secondly, climate change scrutiny in relation to the carbon assessment tool. Outcome based budgeting has been adopted by the Scottish Government since 2007, where Ministers are expected to work towards the shared objectives of government with an emphasis on partnership working with the whole of the public sector expected to contribute to the delivery of national objectives as set out in the National Performance Framework (NPF).

The NPF is intended to provide “a unified vision and quantifiable benchmarks against which future progress can be assessed.” Despite this performance based approach, the budget process has remained largely iterative and forward looking. The focus tends to be on examining the Scottish Government’s expenditure proposals for the following year. There is

little scrutiny of budget decisions at a strategic level including whether the Scottish Government is making any progress against its declared objectives.

With regard to scrutiny of the budget in relation to climate change, the Committee has written to the Cabinet Secretary requesting further information on the carbon assessment of the draft budget: the methodology used and the timetable for publication of the carbon assessment of the draft budget. The Committee is seeking confirmation from the Cabinet Secretary that this information will be published within a timescale that will enable subject committees to scrutinise this important aspect of the budget.

The Finance Committee has therefore agreed to continue with the practice of our predecessor in seeking to introduce a greater focus on outcomes by also adopting the four principles of financial scrutiny as a framework for budget scrutiny:

- **Affordability:** the wider picture of revenue and expenditure and whether they are appropriately balanced;
- **Prioritisation:** a coherent and justifiable division between sectors and programmes;
- **Value for Money:** the extent to which public bodies are spending their allocations well and achieving outcomes; and
- **Budget processes:** integration between public service planning and performance and financial management.

Timing

The Cabinet Secretary for Finance and the Constitution wrote to the Committee on 23 June 2016 proposing that Draft Budget 2017-18 is published after the UK Autumn Statement. The Autumn Statement is normally published at the end of November or the beginning of December. The letter provided a number of reasons for this which are complex and require detailed consideration by the Finance Committee. The issue is further complicated by the result of the recent referendum on EU Membership and the possibility of a further UK budget being published.

The Committee intends to consider these issues further at its business planning event on 22-23 August. In the meantime the Cabinet Secretary has confirmed that the Scottish Government only intends to publish a draft budget for 2017-18 this year and not a Spending Review.

The Committee will provide details of the timetable for the scrutiny of Draft Budget 2017-18 once agreed with the Scottish Government after discussions at our business planning event. It seems likely therefore that the Draft Budget will be published later than 20 September.

I hope you find this guidance helpful.

Yours sincerely

Michael Russell MSP
Convener

Guidance for Committees: Budget Process

Introduction

1. The aim of this paper is to provide guidance to the parliamentary committees on the budget process for the current parliament. Given the new financial powers arising from the Scotland Act 2012 and the Scotland Act 2016 the Finance Committee's primary role will be the scrutiny of the Scottish Government's taxation proposals. At the same time the Committee will also continue to have an overarching role in relation to the scrutiny of the Scottish Government's expenditure proposals.

2. One of the main consequences of the new powers is that the Scottish Government's budget is now potentially subject to much greater uncertainty and volatility than previously when the Block Grant was relatively fixed. For example, a substantial element of the total spend in the Draft Budget is now dependent on tax forecasts. These forecasts will be prepared by the Scottish Fiscal Commission (SFC) once it is placed on a statutory basis from 1 April 2017.

Timetable

3. Given the potential risks arising from this uncertainty and volatility the Cabinet Secretary for Finance and the Constitution wrote to the Committee on 23 June 2016 proposing that Draft Budget 2017-18 is published after the UK Autumn Statement. The Autumn Statement is normally published at the end of November or the beginning of December. The letter provided a number of reasons for this which are complex and require detailed consideration by the Finance Committee. In particular, there is a need to balance consideration of the risks arising from potential uncertainty and volatility with the risks arising from reduced parliamentary scrutiny.

4. The issue is further complicated by the result of the recent referendum on EU Membership and the possibility of a further UK budget being published. This may take the form of the Autumn Statement or may be published earlier.

5. The Committee intends to consider these issues further at its business planning event on 22-23 August. In the meantime the Cabinet Secretary has confirmed that the Scottish Government only intends to publish a draft budget for 2017-18 this year and not a Spending Review. The Committee will provide details of the timetable for the scrutiny of Draft Budget 2017-18 once agreed with the Scottish Government after discussions at our business planning event. It seems likely therefore that the Draft Budget will be published later than 20 September.

Outcomes Based Budget Scrutiny

6. The Scottish Government has adopted an outcome-based approach to its objectives since 2007. Ministers are expected to work towards the shared objectives of government and a new emphasis was placed on partnership working with the whole of the public sector expected to contribute to the delivery of national objectives as set out in the National Performance Framework (NPF). The NPF is intended to provide "a unified vision and quantifiable benchmarks against which future progress can be assessed."

7. Despite this new performance based approach the budget process has remained largely iterative and forward looking. The focus tends to be on examining the Scottish Government's expenditure proposals for the following year. There is little scrutiny of budget decisions at a strategic level including whether the Scottish Government is making any progress against its declared objectives.

8. The Finance Committee has therefore agreed to continue with the practice of our predecessor in seeking to introduce a greater focus on outcomes by also adopting the four principles of financial scrutiny as a framework for budget scrutiny:

- **Affordability:** the wider picture of revenue and expenditure and whether they are appropriately balanced;
- **Prioritisation:** a coherent and justifiable division between sectors and programmes;
- **Value for Money:** the extent to which public bodies are spending their allocations well and achieving outcomes; and
- **Budget processes:** integration between public service planning and performance and financial management.

9. The Committee recommends that examining prioritisation and value for money should be an on-going aspect of budget scrutiny and financial scrutiny more widely during the current session of parliament. This should include the extent to which public bodies are adopting a priority-based budgeting approach and whether they are spending their allocations well and achieving outcomes.

Prioritisation

10. Prioritisation is defined as a coherent and justifiable division between sectors and programmes. The scrutiny role of subject committees and other committees should include testing whether the pledges and commitments made by the Scottish Government are then reflected in the choices made in allocating resources.

11. Audit Scotland have defined a priority-based budgeting approach as one which focuses "on the delivery of priority outcomes and allocates money to those services or areas which makes the greatest contribution to delivering those outcomes."¹ However, few public bodies have "undertaken a structured approach to budget setting in this way" although the NPF can be viewed as a "first step in adopting a priority-based approach to budgeting."²

12. The Committee recommends that subject committees and other committees focus on prioritisation including:

- The extent to which public bodies have moved towards a priority-based budgeting approach;
- Whether spending priorities support outcomes;

¹http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf

²http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf

- Whether current performance informs the choices about where to allocate resource;
- The extent to which the NPF influences the budget-setting process of public bodies.

Value for Money

13. Value for money is defined as the extent to which public bodies are spending their allocations well and achieving outcomes. The Scottish Government states on the *Scotland Performs* website that it is committed to “embedding an open and rigorous performance culture within Scotland’s public services; ensuring greater clarity around the objectives of public organisations; and establishing clearer lines of accountability that help to bolster standards of service and improve outcomes.”³ The Scottish Government has asked all parts of the public sector to report publicly on their plans to improve the value for money achieved by public services, actions undertaken and results achieved.

14. The Committee recommends that in addition to prioritisation, parliamentary committees focus on value for money including:

- The extent to which public bodies are spending their allocations well and achieving outcomes;
- The extent to which an open and rigorous performance culture has been embedded within the public services;
- The extent to which the public services are using performance data to ensure value for money;
- The progress of public bodies in moving towards a more outcomes-based approach to public service management;
- The contribution which public bodies are making towards the NPF.

Preventative Spending

15. The Christie Commission on the Future Delivery of Public Services in Scotland published its [report](#) in June 2011. The Commission concluded that Scotland’s public services were in need of urgent and sustained reform and that a radical change in the design and delivery of public services was necessary to tackle deep-rooted social problems. One of the Commission’s key recommendations was the need to prioritise expenditure on the public services that can prevent negative outcomes from arising. As part of its Spending Review in 2011 the Scottish Government announced a ‘decisive shift to preventative spending’ which would deliver a step change in the way public services were funded and delivered.

16. The previous Finance Committee welcomed the commitment of the Scottish Government to implement preventative spending but expressed disappointment at the relative lack of progress over the past 5 years. We agree with our predecessor that there needs to be strong leadership across all of the political parties and a

³ <http://www.gov.scot/About/Performance/scotPerforms>

consistent message and clear direction provided to Scotland's public bodies that prevention is a priority.

17. The Committee recommends that subject committees and other committees should as part of their focus on prioritisation and value for money scrutinise the extent to which public bodies have adopted a more preventative approach including:

- Evidence of disinvestment;
- The impact of the Change Funds;
- Cultural change;
- Measurement and evaluation including interim targets and benchmarking;
- Joint-working and public sector collaboration;
- Engagement with the Third Sector;
- Innovation and the role of digital technology;
- The role of community planning.

18. The previous Finance Committee raised a number of these issues with the Scottish Government at the end of the last session of parliament which can be found at the link below:

http://www.parliament.scot/S4_FinanceCommittee/General%20Documents/Prevention_letter_23.03.2016.pdf

19. We have asked for a response to this letter and will circulate the response to the subject committees once it has been received.

Climate Change

20. All committees are required to consider climate change issues when scrutinising their own relevant Scottish Government portfolios, and to report to the Finance Committee accordingly. In considering their approach to this Committees should liaise with the Environment, Climate Change and Land Reform Committee. The ECCLR Committee will reflect upon the progress made by all committees following the 2017-18 budget process with a view to informing future engagement and proposals for climate change scrutiny ahead of the 2018-19 budget.

21. The previous Scottish Government stated that all ministers are climate change ministers. As part of their budget scrutiny, relevant committees⁴ are asked to scrutinise how proposed spending in their particular remit has taken account of climate change issues and will help the Scottish Government meet the targets set out in the [Climate Change \(Scotland\) Act 2009](#) and the [Low Carbon Scotland: Meeting our Emissions Reduction Targets 2013-2027: The Second Report on Proposals and Policies \(RPP2\)](#).

⁴ The relevant committees identified by the ECCLR Committee are: Economy, Jobs and Fair Work, Education and Skills, Equal Opportunities, European and External Relations, Finance, Health and Sport, Justice, Local Government and Communities Committee; Rural Economy and Connectivity; and Social Security.

22. Since 1990 Scotland's emissions have reduced by 45.8%. The emission reduction targets set out in RPP2 for 2010, 2011, 2012 and 2013 were missed. The annual target for 2014 was met.

23. When sending agreed budget reports to the Finance Committee, committees are requested to send a copy to the clerks of the ECCLR Committee, highlighting the relevant sections which relate to climate change.

24. To supplement the support it makes available to other committees, ECCLR clerks and SPICe staff will offer early meetings with clerking and SPICe colleagues supporting relevant committees to discuss issues of relevance to committees' work programmes and priorities.

Carbon Assessment

25. A Carbon Assessment of the Scottish Government's Draft Budget is required to be published under the Climate Change (Scotland) Act 2009. The Carbon Assessment sets out the impact that the Government's spending plans will have on greenhouse gas emissions. The 2009 Act limits the scope of the carbon assessment to the emissions resulting from the purchase of goods and services.

26. A number of committees in previous sessions of Parliament have taken a close interest in the development of the carbon assessment of the Draft Budget and have made a number of recommendations regarding the timing of its publication and the methodology used to calculate the impact of the Draft Budget on greenhouse gas emissions.

27. Given this ongoing interest and, in order to ensure effective scrutiny of all aspects of the Draft Budget, the Committee has written to the Cabinet Secretary for Finance and the Constitution seeking further information on its carbon assessment for this year's budget, the methodology used and confirmation that it will be published at the same time as the Draft Budget itself. Once received, the response will be sent to all committees.

Timing Issues

28. The Committee notes that there have been concerns in previous sessions of the parliament about the time available to carry out budget scrutiny. In particular, in years when the draft budget has been published later than September due to the timing of UK Government Spending Reviews. The Committee also recognises that there are a number of competing demands on the work programme of all committees. The Committee, therefore, notes that the approach outlined in this Guidance is not confined to the timetable for draft budget scrutiny. Committees should at least in part be able to carry out this scrutiny at any point throughout the year albeit that it would be helpful if findings can be submitted to the Finance Committee for consideration as part of our budget scrutiny. It is also recognised that there are a number of issues set out in the Guidance and it is not realistic to expect all of these issues to be considered on an annual basis. It is expected therefore that similar Guidance will be issued throughout the current session with the expectation that Committees will develop a cumulative understanding of spending decisions within their respective portfolios and the impact of these decisions on outcomes.